GULF OIL CANADA LIMITED Gulf 1969 Annual Report

Gulf Oil Canada Limited · 1969 Annual Report

Contents

Annual Meeting
The Annual Meeting of Shareholders will be held in the Concert Hall of the Royal York Hotel, Toronto, at 2:00 p.m., April 30, 1970.

Cover: This crude oil storage tank is one of eight being built at Gulf Canada's new 60,000 barrel-per-day refinery at Point Tupper, Nova Scotia. Among the largest in Canada, each tank has a capacity of 450,000 barrels.

On peut obtenir ce rapport annuel en français sur demande.

HIGHLIGHTS OF OPERATIONS

FINANCIAL	1969	1968
Earnings for the year	$ 45,518,000	$ 48,225,000
Per share	$ 1.00	$ 1.06
Total dividends to shareholders	$ 26,636,000	$ 24,673,000
Rate per share at year-end	$ .60	$ .55
Shareholders' equity at year-end	$660,682,000	$640,385,000
Per share	$ 14.57	$ 14.14
Capital expenditures	$112,768,000	$ 87,815,000
Working capital	$224,655,000	$210,880,000
Long term debt	$157,624,000	$114,685,000

OPERATING		
	Millions of cubic feet	
Net natural gas produced and sold	129,572	115,296
	Thousands of barrels	
Net crude oil and natural gas liquids produced	31,352	29,308
Crude oil processed by and for the Company	72,012	71,336
Refined products sold	75,318	74,655
	Thousands of pounds	
Petrochemical sales	484,511	454,645

DIRECTORS

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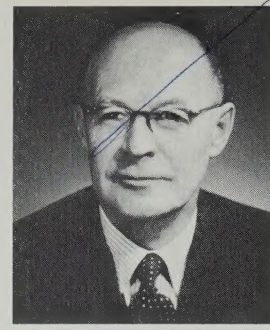
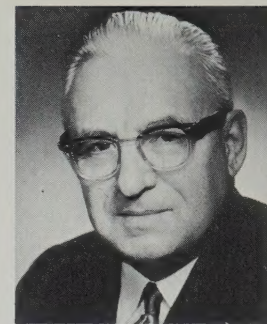
J.D. Barrington, Mining Engineer and Corporate Director, Toronto, Ontario. Director: The Algoma Steel Corporation, Limited; Canadian Imperial Bank of Commerce; National Trust Company Limited; Excelsior Life Insurance Company.

W. Herman Browne, Chairman, Moore Corporation Limited, Toronto, Ontario. Director: The Bank of Nova Scotia; The Steel Company of Canada, Limited.



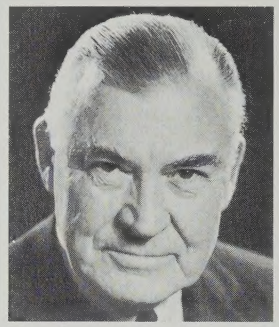
Fraser W. Bruce, Chairman, Canadian Executive Service Overseas, Montreal, Quebec. Director: Alcan Aluminium Limited; Polymer Corporation, Limited; National Trust Company Limited.



J.R. Gordon, Director and Member of the Executive Committee, The International Nickel Company of Canada, Limited, New York, N.Y. Director: Borden, Inc.; The Babcock & Wilcox Company; The Canada Life Assurance Company; The Steel Company of Canada, Limited; The Toronto-Dominion Bank. Honorary Director, The Bank of New York.

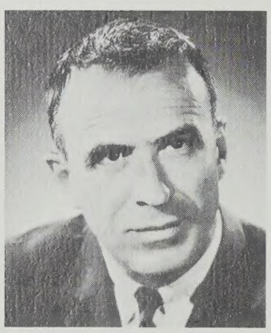
Charles Hay, President, Hockey Canada, Toronto, Ontario. Director: Canada Permanent Mortgage Corporation; Canada Permanent Trust Company; Canadian Nuclear Association; Ontario Research Foundation.

I.M. MacKeigan, Q.C., Senior Partner, MacKeigan, Cox, Downie and Mitchell, Halifax, Nova Scotia. Member: Economic Council of Canada. Director: Halco Limited.

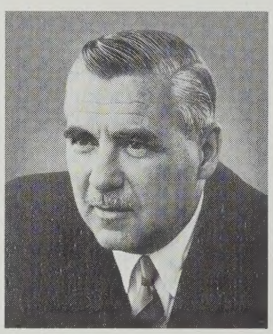


Beverley Matthews, Q.C., Senior Partner, McCarthy & McCarthy, Toronto, Ontario. Director: The Toronto-Dominion Bank; TransCanada PipeLines Limited; Brascan Limited; Canadian Westinghouse Company, Limited; The Canada Life Assurance Company; Gulf Oil Corporation.

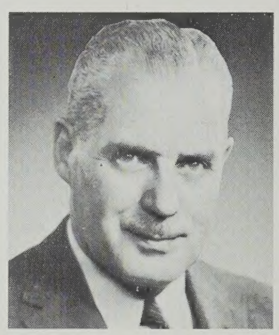
Jerry McAfee, President and Chief Executive Officer, Gulf Oil Canada Limited, Toronto, Ontario. Director: The Bank of Nova Scotia; Canadian Executive Service Overseas.



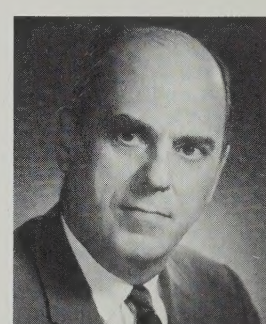
Gérard Plourde, President, UAP Inc., Montreal, Quebec. Vice-President and Director: Alliance Compagnie Mutuelle d'assurance-vie. Director: Anglo-French Drug Co. Ltd.; Editions du Renouveau Pédagogique Inc.; Northern Electric Company Limited; Omer De Serres Limitée; Molson Industries Limited; Robert Morse Corporation Limited; Rolland Paper Company Limited; Sidbec Inc.; Steinberg's Limited; The Toronto-Dominion Bank.



R.G. Rogers, President and Chief Executive Officer, Crown Zellerbach Canada Limited, Vancouver, British Columbia. Director: Canadian Imperial Bank of Commerce; Ocean Cement and Supplies Limited; Placer Development Limited; Royal General Insurance Company of Canada.



V.W. Scully, Chairman of the Board, The Steel Company of Canada, Limited, Toronto, Ontario. Director: Bank of Montreal; Moore Corporation Limited; Sun Life Assurance Co. of Canada.



C.D. Shepard, Chairman of the Board, Gulf Oil Canada Limited, Toronto, Ontario. Director: The Toronto-Dominion Bank; The Carborundum Company.

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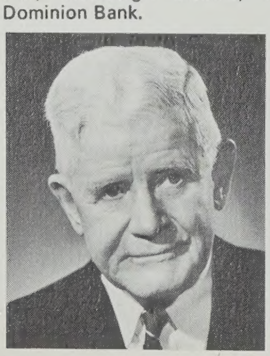
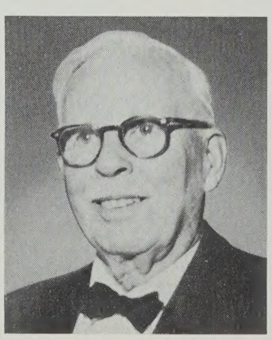


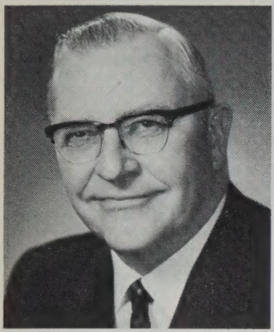
R.A. Laidlaw, Toronto, Ontario, Director Emeritus.



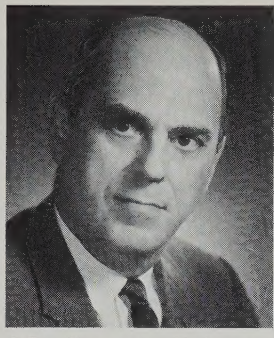
C.L. Suhr, Oil City, Pennsylvania, Director Emeritus.

Paris

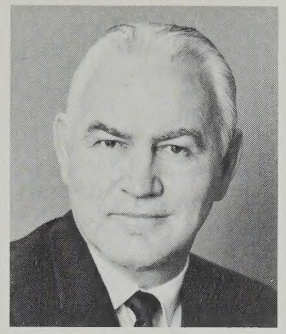
OFFICERS



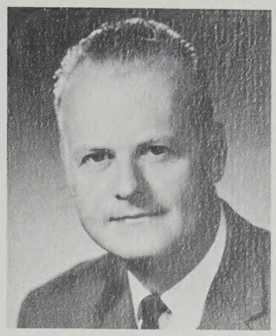
Jerry McAfee, President and Chief Executive Officer. Graduate of University of Texas and M.I.T. in chemical engineering. Joined Gulf Oil in 1945. Prior to joining Gulf Canada in 1967 as Executive Vice-President, was a Senior Vice-President of Gulf Oil Corporation.



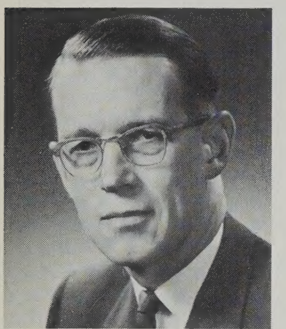
C.D. Shepard, Chairman of the Board. Graduate of University of Manitoba Law School. Chief Commissioner, Board of Transport Commissioners for Canada, prior to joining Gulf Canada in 1958.



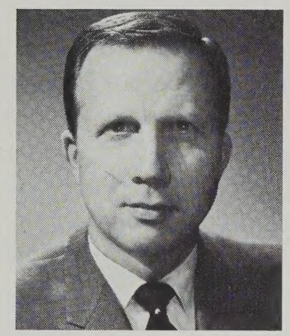
L.P. Blaser, Senior Vice-President. Graduate of University of Saskatchewan in chemical engineering. Joined Gulf Canada in 1939. Appointed Vice-President in 1963. Transferred to Gulf Oil in 1966 as World-Wide Co-ordinator of Refining. Returned to Gulf Canada in 1967.



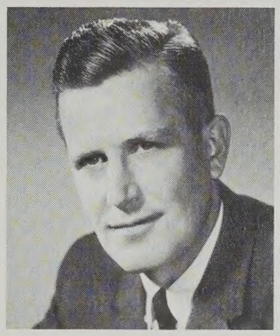
F.D. Aaring, Vice-President responsible for Employee Relations. Graduate of University of Oklahoma in petroleum engineering. Joined Gulf Oil in 1948. Was General Manager of Gulf Canada's Production Department prior to becoming Vice-President in 1966.



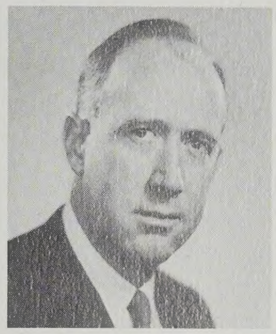
R.E. Harris, Vice-President responsible for Supply and Transportation. Graduate of University of Alberta in chemical engineering. Joined Gulf Canada in 1944. Appointed General Manager of Crude and Products Supply Department in 1965, Vice-President of Gulf Canada in 1966.



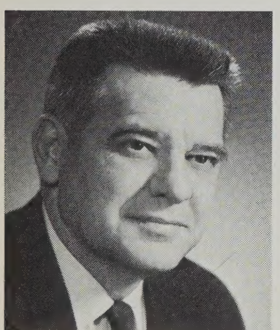
V.N. Hurd, Vice-President responsible for Chemicals. Graduated from Pennsylvania State University in chemical engineering. Joined Gulf Oil in 1942 and Gulf Canada in 1965. Appointed Vice-President of Gulf Canada in 1969.



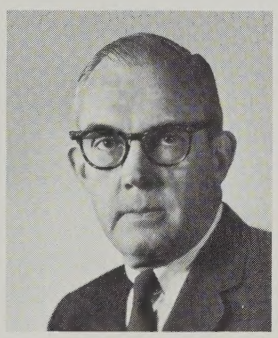
D.S. Lyall, Vice-President responsible for Finance. Graduate of Dalhousie University and Law School. Joined the Comptroller's Department at Toronto in 1948. Appointed Vice-President in 1965.



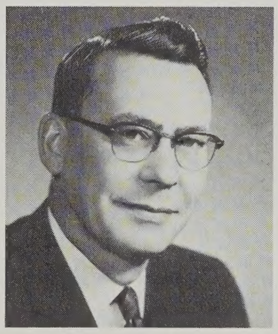
J.W. Morgan, Vice-President responsible for Research and Development and for representation in share-interest companies. Graduate in chemical engineering of University of Alberta. Joined Gulf Canada at Calgary refinery in 1939. Appointed Vice-President in 1958.



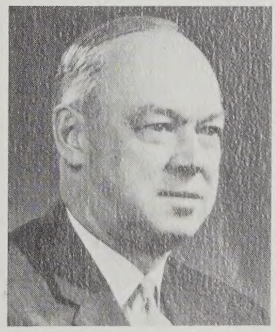
C.G. Mueller, Vice-President responsible for Marketing. Joined Gulf Oil in 1946. Became Vice-President of Gulf's Western Marketing Region in 1965. Appointed Gulf Canada Vice-President in 1967.



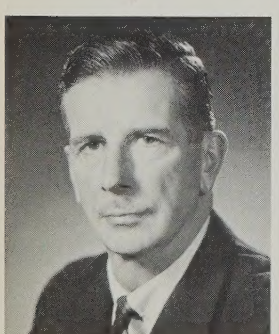
G.O. Relf, Vice-President responsible for Exploration and Production, with headquarters in Calgary. Graduate of University of Utah in geology. Joined Gulf Oil in 1937. Became Vice-President of Exploration and Production for Gulf's Eastern Hemisphere in 1963. Appointed Gulf Canada Vice-President in 1968.



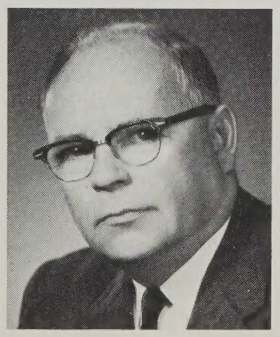
J.L. Stoik, Vice-President responsible for Refining. Graduate of University of Saskatchewan in chemical engineering. Joined Gulf Canada in 1947. Became General Manager of Manufacturing in 1965, Vice-President of Gulf Canada in 1968.



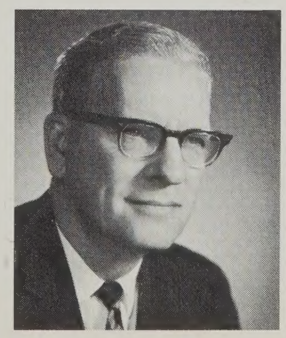
H.S. Sutherland, Vice-President and Executive Representative for Eastern Canada. Graduate of Mt. Allison University in chemistry and holds post-graduate degrees from McGill University and Imperial College of Science, London University. Formerly President of Shawinigan Chemicals Limited. Appointed Vice-President of Gulf Canada in 1967.



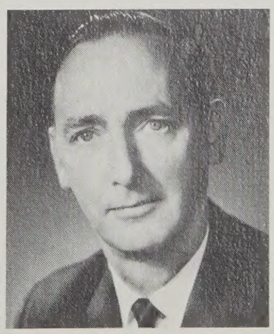
G.W.K. Macdonald, Q.C., Secretary. Graduate of University of Toronto and Osgoode Hall Law School. Joined Gulf Canada's Law Department in 1946.



J.C. Phillips, Q.C., General Counsel. Graduate of University of Toronto and Osgoode Hall Law School. Joined Gulf Canada's Law Department in 1956.



R.W. Cochrane, Treasurer and Director of Taxation. Joined Gulf Canada in 1926. Held various managerial posts before becoming Assistant Treasurer in 1967.



J.A. Scobie, Comptroller. Joined Royalite Oil in 1942, becoming a Vice-President and Director in 1963. Appointed Assistant Comptroller of Gulf Canada in 1965.

REPORT TO SHAREHOLDERS

Gulf Canada enjoyed continued growth in 1969 and volume increases were recorded in all areas of the Company's activities. Consolidated net earnings amounted to $45.5 million in 1969, compared with $48.2 million in 1968. Despite the 5.6 per cent decrease from the previous year, it was the second best earnings record in the Company's history. Per share earnings amounted to $1.00, compared with $1.06 in the previous year. As reported in more detail later in this report, higher sales volumes and revenues did not completely offset increases in operating expenses.

Among the year's operational highlights were the amalgamation of affiliated companies and conversion to Gulf Canada identification; opening of a new ethylene plant at Varennes, Quebec; continuation of a major refinery expansion program; initial construction of a new gas processing plant at Strachan, Alberta; and the formation of Servico Limited as the customer service organization of Gulf Canada.

Canadian production of crude oil and natural gas liquids in 1969 averaged 1.3 million barrels per day, an 8.8 per cent increase over 1968. Sales to U.S. refiners averaged 559,000 barrels per day, a gain of more than 20 per cent over 1968.

The high demand for crude in the first quarter of 1970 confirms the basic attractiveness of Canadian crude to U.S. refiners and would lead us to believe that the recently imposed restraint by the U.S. government is a short term measure.

Demand for refined petroleum products in Canada during 1969 increased 4.4 per cent, less than the 6.5 per cent gain registered in 1968, reflecting the effects of the slowdown of real growth in the national economy.

The natural gas industry experienced excellent progress. Total sales rose 11.5 per cent over the previous year to approximately 4,178 million cubic feet per day; exports to the U.S. accounted for over 40 per cent of total sales and recorded an increase of 11.2 per cent over the 1968 level. As a result of the rapidly increasing U.S. demand for Canadian natural gas, the National Energy Board has held hearings into a number of applications for licenses to export large volumes of natural gas. It is hoped that these deliberations will result in a policy safeguarding the interests of Canadian consumers while at the same time encouraging optimum utilization of this valuable natural resource.

A number of dramatic developments occurred in the Arctic area in 1969 following the discovery of a potentially major oil field in Alaska in 1968. Announcements regarding the 800-mile Trans-Alaska pipe line system, record-breaking bids for oil leases in the area, the voyage of the *S.S. Manhattan* through the Northwest Passage, and the formation of a Canadian company to study the feasibility of a pipe line route via the Mackenzie River valley to Edmonton—all these ventures involving large amounts of capital and resources point to the anticipation by the industry of a rapid growth in far-north recoverable reserves and production.

During 1969 the emphasis in geological and geophysical exploration activities shifted to areas located north of the Provinces. For example, one in five geophysical crews were active in the North during 1969, compared with one in ten in 1968 and one in twenty in 1967. In January, 1970, oil was discovered on the shore of Beaufort Sea in the Canadian Arctic, adjacent to the Mackenzie River delta. This discovery has resulted in a flurry of interest and activity in the area, where many companies have exploration leases. Gulf Canada has excellent land representation in the immediate vicinity, with approximately three million net acres

in three blocks bordering 25 to 50 miles away on three sides of the discovery.

In the United States, the total energy supply and demand situation is currently being subjected to rigorous analysis by industry and government agencies. Much attention is being directed to the desirability of developing a continental energy policy to encompass the supply and demand of all forms of energy for Canada and the U.S. Government and industry representatives in both countries have spoken in favor of the principles of such an approach although there has been wide variation in the suggested manner of implementation. While discussions have included all sources of energy, of more immediate concern are the exports of Canadian crude oil and natural gas to the economically attractive markets in the U.S.

To fill the growing deficiency between demand and domestic supply, the U.S. will undoubtedly rely on the relatively secure overland imports of crude oil from Canada, rather than increasing its dependence on more vulnerable overseas sources of supply, having regard also to the present Canadian surplus producing capacity of conventional crude oil, the vast known reserves of Canada's tar sands, and the potential of the largely unexplored Canadian Arctic and off-shore areas.

During 1969, earnings of the Canadian chemical industry were reduced by extreme competition in world markets. The Company is constantly reviewing its place within the industry to improve its position.

At the Special General and Annual Meeting of Shareholders on May 15, 1969, shareholders approved an increase in the number of the Board of Directors from ten to twelve. Newly-elected to the Board were Ian M. MacKeigan, Q.C., Barrister and Solicitor, Halifax, and Robert G. Rogers, President and Chief Executive Officer of Crown Zellerbach Canada Limited, Vancouver.

Several important executive changes have taken place since last year's Annual Report.

On September 1, 1969, Jerry McAfee succeeded Charles Hay as President and Chief Executive Officer of Gulf Canada following Mr. Hay's retirement after a five-year term as President. V.N. Hurd, formerly President and Chief Executive Officer of Shawinigan Chemicals Limited, was elected a Vice-President of Gulf Canada. George O. Relf, Vice-President of Exploration, assumed in addition the duties of E.J. Gallagher, the Company's Vice-President of Production, following Mr. Gallagher's retirement. R.W. Cochrane was appointed Treasurer and Director of Taxation and J.A. Scobie was appointed Comptroller, following J.M. Turnbull's resignation as Treasurer and Comptroller to accept a position with Gulf Oil Corporation.

The loyalty, initiative, and talents of Gulf Canada's 11,000 employees in all parts of Canada continued to be among the most important assets in the Company's steady progress in 1969. The interest and active support of our shareholders and dealer organization are also recognized as essential factors in Gulf Canada's success in the months ahead.

On behalf of the Board,

Chairman of the Board. President.

Toronto, Ontario, March 30, 1970.

Measures undertaken to take advantage of higher crude oil export demands contributed to 1969 net crude oil and natural gas liquids production averaging 85,897 barrels per day, up seven per cent over 1968. Net natural gas produced and sold also showed a substantial increase, up 12.4 per cent to a daily average of 355 million cubic feet in 1969.

As a result of the 1968 discovery at Strachan-Ricinus in central Alberta, this area attracted major attention from Gulf Canada in 1969. A significant land position was acquired, and some acreage has now been successfully proven for gas. South of Ricinus, interesting Leduc Reef prospects will be tested in early 1970 as well as a structure eight miles west of the Strachan field. Stepout drilling has proven a major new gas reserve at Strachan, and also a potentially important gas reserve under Gulf interest acreage 15 miles south of Strachan. The Strachan gas has been contracted for sale to TransCanada PipeLines by November, 1970, and construction of a new 250 million-cubic-feet-daily plant is now underway.

Spurred by the incentive of the 1968 Prudhoe Bay discovery, industry activity has accelerated in the northern areas of Canada. The recent oil discovery at the Atkinson well in the Mackenzie River delta is Canada's first oil discovery north of the Arctic Circle. This success could provide an extremely promising outlook for this vast, sparsely explored Arctic Coast basin in which Gulf Canada has excellent acreage representation. The Company will begin an intensive long term geophysical and drilling program in this area in 1970, and drilling locations have been selected in the south-central part of the Gulf Canada Reindeer block, some 70 miles southwest of, and on regional trend with, the discovery well.

At the year-end Gulf Canada's net acreage totalled 27.2 million acres, a decrease of approximately 2.2 million acres from the 1968 inventory.

During 1969 Gulf Canada acquired a ten per cent interest in the Canadian operations of Gulf Minerals Company, a wholly-owned subsidiary of Gulf Oil Corporation. As a result of 12 core holes being drilled by Gulf Minerals in the Wollaston Lake area of Saskatchewan, high quality ore-grade uranium mineralization was encountered and analytical work is now in progress to establish the size and geometry of the ore body.

Exploration and Production

Gulf Canada's recently-expanded gas processing plant at Nevis, Alberta.

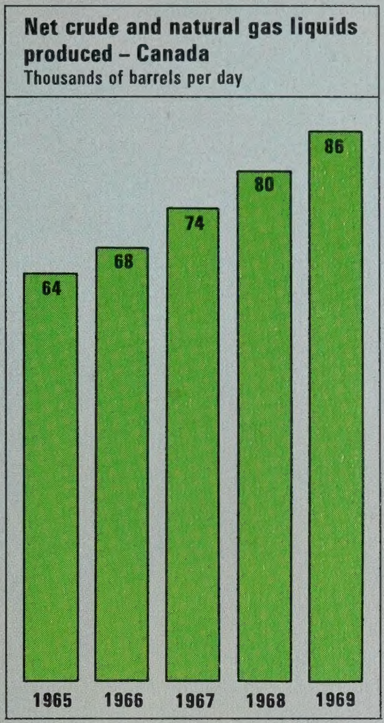
Well completion data – Canada

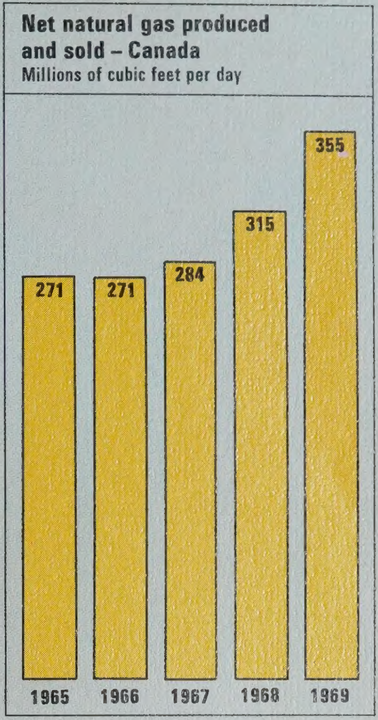
Gross wells	1969	1968	1967	1966	1965
			Exploratory		
Successful – oil	—	8	4	3	6
– gas	3	4	4	7	15
Dry holes	17	22	24	43	59
Total	20	34	32	53	80
Net wells					
Successful – oil	—	7	4	2	4
– gas	2	2	4	6	14
Dry holes	9	13	16	32	47
Total	11	22	24	40	65

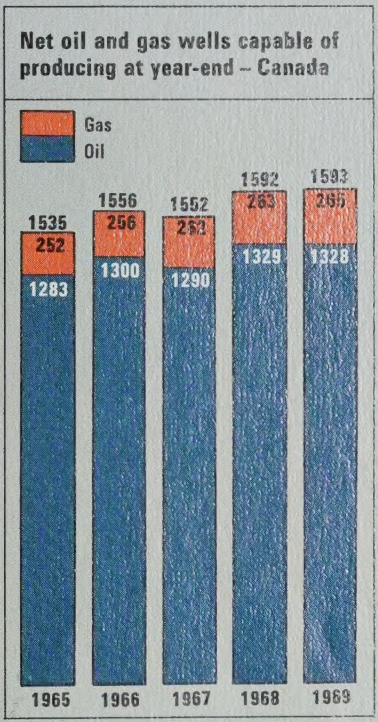
Gross wells	1969	1968	1967	1966	1965
			Development		
Successful – oil	51	60	26	48	43
– gas	30	39	29	19	36
Suspended	2	—	—	—	—
Dry holes	13	9	7	12	25
Total	96	108	62	79	104
Net wells					
Successful – oil	22	35	16	26	25
– gas	6	5	6	3	18
Suspended	1	—	—	—	—
Dry holes	4	3	5	9	22
Total	33	43	27	38	65

Estimated net recoverable reserves

as at December 31, 1969	Before Royalty	After Royalty
Crude oil and natural gas liquids (millions of barrels)	623	537
Marketable natural gas (trillions of cubic feet)	3.2	2.8
Sulphur (millions of long tons)	5.2	4.8







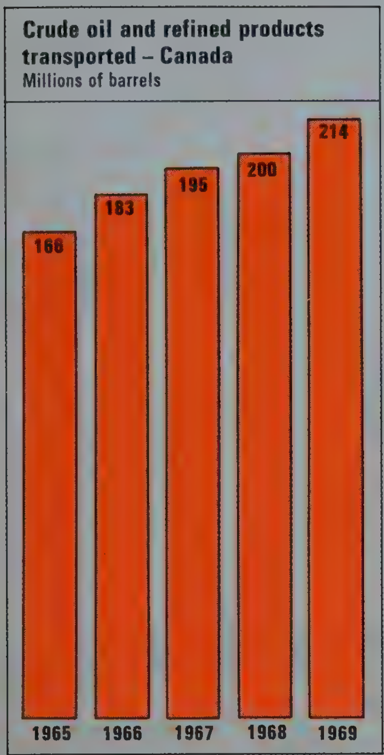
Canadian crude oil prices were generally stable despite increases in United States prices ranging from 10 to 20 cents per barrel in March, 1969. The U.S. price advance further enhanced the competitive position of Canadian crudes in that market.

Existing refining capacity continued to be used as economically as possible, and a number of product supply arrangements were made to prepare for the planned increase in refining capacity. Supplies of refined products were maintained at all major outlets, although cost of supply to areas affected by the prolonged strike in British Columbia was slightly higher.

Engineering design and rights-of-way acquisition are progressing for the construction of a 185-mile pipe line to carry petroleum products from Edmonton to Calgary; the new line is scheduled to begin operation coincident with the start-up of the Company's expanded Edmonton refinery in early 1971. Arrangements have recently been made under which Interprovincial Pipe Line Company will transport gasoline, diesel and heating fuels from the Edmonton refinery to terminals Gulf Canada will establish near Saskatoon and Regina. These products will replace similar volumes of crude oil that Interprovincial currently carries for Company refineries at Moose Jaw and Saskatoon.

Supply and Transportation

Gulf Canada leaves dock at Clarkson, Ontario, refinery with load of products for Great Lakes ports.


Crude oil and refined products transported – Canada
Millions of barrels
168
183
195
200
214
1965
1966
1967
1968
1969

Refining

In processing 69.2 million barrels of crude oil and condensate in 1969, the Company's refineries operated at virtually 100 per cent of rated capacity.

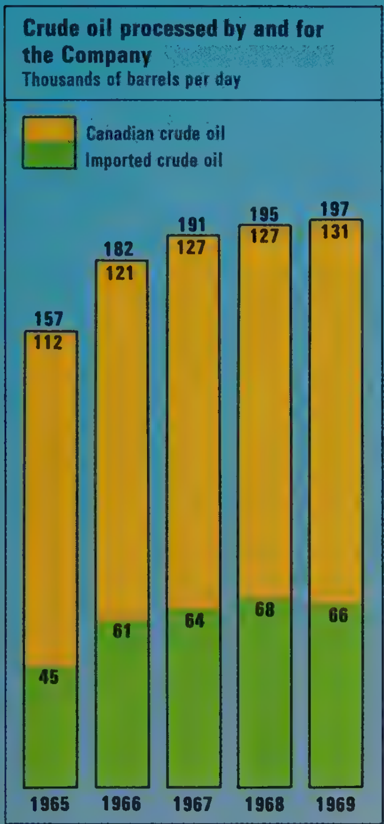
Construction programs to enlarge Gulf Canada's processing capacity made good progress during 1969. The new 60,000 barrel-per-day refinery at Point Tupper, Nova Scotia, together with a mammoth tanker dock, is scheduled for completion in the Fall of 1970; initial refining operations will start near the end of the year. At the Montreal East, Quebec, refinery, the fluid catalytic cracking unit is undergoing the first phase of an expansion project which will be completed in the Summer of 1970. Field construction has started on the 80,000 barrel-per-day refinery at Edmonton, Alberta; all major equipment has been ordered and the new units will go on stream in 1971. At Port Moody, British Columbia, the first phase of an expansion program designed to increase crude throughput by 50 per cent will be completed early in 1970; the project includes a sulphur plant and other equipment to minimize air and water pollution.

The obsolete 4,000 barrel-per-day refinery at Brandon, Manitoba, was shut down at the end of March, 1969, as planned.

Refinery crude processing capacity

	Barrels per stream day
Montreal East, Quebec	75,000
Clarkson, Ontario	61,500
Moose Jaw, Saskatchewan	15,000
Saskatoon, Saskatchewan	8,300
Calgary, Alberta	10,000
Edmonton, Alberta	14,000
Kamloops, British Columbia	6,500
Port Moody, British Columbia	20,000
Total	210,300

New 80,000 barrel-per-day refinery rises above Edmonton, Alberta, skyline.


Crude oil processed by and for the Company
Thousands of barrels per day
Canadian crude oil
Imported crude oil
157
112
45
182
121
61
191
127
64
195
127
68
197
131
66
1965
1966
1967
1968
1969

Petrochemical sales
(excluding sulphur)
Millions of pounds
Ethylene
Other
457
72
385
482
105
377
472
111
361
455
98
357
485
133
352
1965
1966
1967
1968
1969

Chemicals

Consolidated net sales revenue of the Shawinigan Chemicals Division and affiliated operations in 1969 showed a four per cent gain over 1968. Price trends continued to be mixed.

Major new facilities for the production of olefins and vinyl chloride monomer were brought on stream at Varennes, Quebec. Start-up difficulties prevented the new units from making their anticipated contribution to earnings.

In other operating areas, particularly at Shawinigan and Montreal East, capacity was expanded and performance improved in several plants. In keeping with a cost reduction program, facilities for the production of higher alcohols at the Shawinigan Works, which had become technically and economically obsolescent, were closed down permanently.

Although plans were announced for a new plant at Montreal East for the production of alcohols by the oxo process, the present uncertain economic climate has made it prudent to defer this project for the time being.

The new ethylene plant now on stream at Varennes, Quebec, will have an ultimate capacity of 500 million pounds per year.

Marketing

Although there was only a modest increase in total sales of refined products in 1969, gasoline sales at service stations were substantially improved. Contributing factors were the conversion to Gulf Canada identification, the "We Hurry" advertising campaign, "Gulf Good Value" promotion, a major upswing in the use of Gulf Canada Travel Cards, and the enthusiastic support of our dealer organization. Partially offsetting this increase was the continuation of a policy to forego long-discount business which does not make a material contribution to profits.

Prices of some petroleum products were raised during the year in a necessary effort to maintain a reasonable level of profit and return on investment. Nevertheless, prices being received by the Company for its products are still lower in many areas than the level which existed ten years ago and return on investment is still not satisfactory.

Holders of Gulf Canada Travel Cards now have the additional service of an Extended Payment Option Plan, which gives customers a choice of the period over which to pay the account balance.

Servico Limited, a customer service organization designed to improve Gulf Canada's retail service, was formed early in 1969 to operate major automotive service centres, farm centres, and the home comfort fuel oil division. Servico is also responsible for the direction of Western Tire and Auto Supply Limited, a merchandising affiliate.

During the year responsibility for a number of small marketing subsidiaries was transferred to Servico to improve operating control, and in Western Canada a program was started to provide Servico Centres with a broader range of products and an improved level of service to the agricultural market. Western Tire added seven stores to its chain of franchise dealerships in 1969.

Revenues of Superior Propane Limited for 1969 increased eleven per cent, while earnings were improved 34 per cent over the previous year.

Superior expanded its market areas during the year to include both the mainland and Vancouver Island in British Columbia, while the introduction of bulk propane in Newfoundland extended the company's complete propane service to all provinces. New uses for propane, such as make-up air for shaft mining, heating for diamond drilling, and industrial construction heating, made a considerable contribution to profit in 1969. The introduction of pollution-free carburetion equipment for use in enclosed industrial areas is another recent market development.

This Edmonton service station is one of 5,000 across Canada now displaying the Gulf Canada "blue ribbon" look.


Refined products sold
Thousands of barrels per day
Gasoline
Middle distillates
Other
172
64
53
55
187
69
61
57
209
72
69
68
204
74
63
67
206
76
62
68
1965
1966
1967
1968
1969

Several Gulf Canada branded products were reformulated and new products developed during 1969 to take advantage of the latest petroleum additive technology.

Studies and evaluations were carried out in a wide variety of fields. In the continuing program to reduce pollution, analytical techniques were developed for identifying and measuring constituents of effluents from refineries, while air and water quality surveys were made at several Company operating plants.

Research and Development

To ensure maximum flexibility in refinery operations, evaluations of various crude oils were made to determine the amount and quality of products which could be produced; the effects of crudes and processes on asphalt quality were also studied to permit more flexibility in asphalt manufacturing. Chemical research continued to assist in up-grading low-value petroleum by-products from refinery and chemical operations.

Sulphur plants were studied to measure and improve conversion efficiencies, and assistance was given in obtaining and installing process analyzers at these plants to permit continuous monitoring of their operations.

Aerial view of Research and Development Centre at Sheridan Park, Ontario.

Following amalgamation of the affiliated companies, the Employee Relations Department was reorganized and decentralized in order to administer its responsibilities more effectively. Regional offices at Calgary, Toronto, and Montreal now assist the Head Office group in offering services to all departments.

Collective bargaining agreements were signed with 30 independent and union units during 1969; a five-month strike at the Company's Port Moody refinery and Pacific Marketing division ended in October. Improvements in Gulf Canada's Retirement Income and Group Insurance Plans were made during the year to ensure that these benefits remained on a more realistic level with rising living costs. Emphasis continued to be placed on Manpower Development programs; university courses and seminars were made available at supervisory and management levels; and particular attention was directed to counselling with respect to appointments, inter-departmental transfers, and moves to other parts of the world-wide Gulf organization.

Public Relations programs contributing to corporate goals during the year included preparation and dissemination of information in support of the transition to Gulf Canada identification. Continuing efforts were directed to communications to employees, dealers, shareholders and news media; donations to charitable, welfare, health and educational projects in all provinces; a film library which attracted one million viewers for the first time; and a scholarship and fellowship program for deserving students.

Gulf Canada's pollution prevention expenditures of over $10 million during the past decade will be equalled within the next five years. Reflecting the Company's determination to ensure that its operations are as harmless as possible to the environment, all new facilities under construction are of the most efficient design and incorporate the latest equipment to minimize air and water pollution and noise.

Employee and Public Relations

FINANCIAL REVIEW

Consolidated earnings for 1969 amounted to $45.5 million, a reduction of $2.7 million from the $48.2 million earned in 1968. The 1969 earnings were equivalent to $1.00 per share, compared with $1.06 for 1968, based on the number of shares outstanding at the end of each year. As explained in note 8 to the financial statements, the number of shares of capital stock was increased as a result of the amalgamation of Gulf Oil Canada Limited, Royalite Oil Company, Limited, and Shawinigan Chemicals Limited. Per share amounts shown throughout this report have been stated on the new basis.

The comparative statements of earnings on page 22 provide details of revenues and expenses. Net sales and operating revenues of $655.3 million improved $31.8 million over 1968. The gain was attributable to generally higher sales of all products and merchandise, with the exception of sulphur which reflected a deterioration in both volume and price from the previous year. All items of costs and expenses increased over 1968. Cost of purchased crude oil, products and merchandise was up $6.7 million to $278 million, while operating, selling and administrative expenses rose $24 million to $230.4 million. Major items affecting these categories were higher business volumes, increased dry hole expenses, and the prolonged industry-wide strike in the lower mainland of British Columbia. In addition, increased operating expenses were incurred in all areas of operations despite continuing emphasis on cost controls and operating efficiencies. Property, sales and other taxes were up $1.7 million, while provisions for depreciation, depletion and amortization of capital assets increased $2.3 million. Interest and other charges on long term debt totalled $7.3 million, an increase of $2.5 million over 1968, reflecting the full year's interest costs with respect to the $50 million debentures issued September 1, 1968. Total provision for income taxes of $21.7 million was reduced $1.4 million from 1968. Current income taxes declined $12.7 million, reflecting the substantial capital cost allowances available for income tax reporting purposes in 1969; conversely, under the tax allocation method of accounting for income taxes adopted in 1968, the provision for deferred taxes amounted to $9.8 million, compared with a negative provision in 1968 of $1.5 million.

As shown in the comparative statement of source and use of funds on page 23 and the graph included with this review, working capital increased $13.8 million during 1969. Table I provides an analysis of this change. Cash and marketable securities of $71.1 million were at approximately the same level as the previous year, reflecting the proceeds of the December 1, 1969, issue of $50 million 8½ per cent debentures.

Table II shows a comparative analysis of capital expenditures by major operating departments. The 1969 expenditures of $112.8 million were the highest in the history of the Company. Completion of the new refinery at Point Tupper, Nova Scotia, and heavy outlays on the new refinery at Edmonton, Alberta, will result in an increase in the level of capital expenditures during 1970. It is expected that some additional financing will be required in 1970 to carry out this program. This financing could be by short term borrowing if market conditions are not considered favorable for the issue of additional long term debt.

In a judgment given on June 30, 1969, the Company's claim for refund of U.S. taxes paid in 1967 in the amount of $13.1 million was disallowed, except to the extent of $2.2 million. Although the judgment has been appealed, the amount disallowed, $10.9 million, has been recorded as a prior period adjustment and, accordingly, the balance of retained earnings at January 1, 1968, and the amount of the claim receivable reflected in the 1968 balance sheet have been restated.

As set out in note 10 to the financial statements, the Company received in January, 1970, preliminary notice that the U.S. Internal Revenue Service is proposing adjustments relating to certain transactions that followed the sale by the Company in 1966 of all shares of its wholly-owned subsidiary, The British-American Oil Producing Company, which could result in deficiencies in respect of U.S. income taxes.

At December 31, 1969, the total assets of the Company exceeded $1 billion for the first time. The shareholders' equity in the net assets amounted to $660.7 million, or $14.57 per share.

A statement of operating statistics and a financial summary for the past five years are shown on pages 29 and 30.

Table I

Working capital

Millions	December 31 1969	1968	Change
Cash and marketable securities	$ 71.1	$ 68.6	$ 2.5
Accounts receivable	151.7	134.5	17.2
Inventories	123.6	109.2	14.4
Prepaid expenses	6.1	5.8	.3
Total current assets	352.5	318.1	34.4
Less current liabilities	127.8	107.2	20.6
Working capital	$224.7	$210.9	$ 13.8

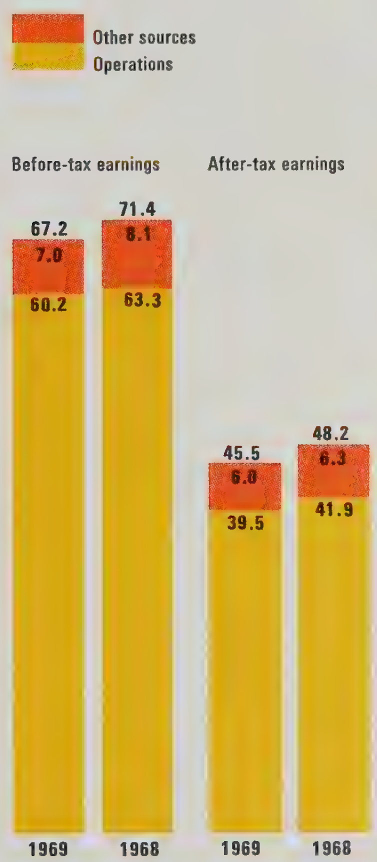
Table II

Expenditures on properties, plants and equipment

	1969		1968	
	Millions	Per cent	Millions	Per cent
Production	$ 32.8	29.1	$ 29.3	33.4
Transportation	1.1	1.0	1.6	1.8
Refining	46.4	41.1	8.9	10.1
Petrochemicals	10.3	9.1	23.8	27.1
Marketing	19.7	17.5	22.3	25.4
Other	2.5	2.2	1.9	2.2
Total	$112.8	100.0	$ 87.8	100.0

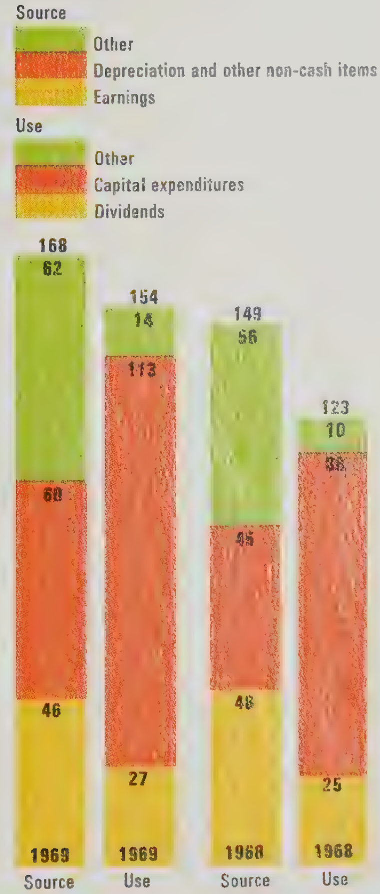
Summary of earnings

Millions of dollars



Source and use of funds

Millions of dollars



CONSOLIDATED

December 31, 1969 (with comp

ASSETS	1969	1968
CURRENT:		
Cash	$ 16,296,000	$ 16,450,000
Short term investments, at cost (approximates market value)	54,773,000	52,146,000
Accounts receivable	151,697,000	134,501,000
Inventories (note 2) –		
Crude oil, products and merchandise	115,676,000	101,437,000
Materials and supplies	7,965,000	7,806,000
Prepaid expenses	6,058,000	5,790,000
Total current assets	352,465,000	318,130,000
INVESTMENTS, LONG TERM RECEIVABLES AND OTHER ASSETS:		
Investments in associated and other companies at cost (note 3)	11,490,000	11,735,000
Deposits, long term receivables and other assets	29,212,000	25,741,000
Claim for refund of U.S. taxes paid (note 6(b))		2,247,000
Deferred charges at cost less amortization	9,118,000	6,830,000
	49,820,000	46,553,000
PROPERTIES, PLANTS AND EQUIPMENT AT COST less accumulated depreciation, depletion and amortization (note 4)	585,392,000	528,579,000
EXCESS OF COST OF INVESTMENTS IN SUBSIDIARY COMPANIES over values assigned to their tangible assets, less amortization	17,049,000	17,855,000
	$1,004,726,000	$911,117,000

See accompanying notes to financial statements.

Limited
panies)

LANCE SHEET

e figures for 1968 (note 12))

LIABILITIES	1969	1968
CURRENT:		
\mounts payable to affiliated companies for crude oil and other purchases	$ 19,627,000	$ 7,234,000
Other accounts payable and accrued charges	73,074,000	67,033,000
ncome and other taxes payable (note 6(a))	24,999,000	23,904,000
Current portion of long term debt	3,306,000	2,863,000
Dividends payable	6,804,000	6,216,000
Total current liabilities	127,810,000	107,250,000
LONG TERM DEBT (note 7)	157,624,000	114,685,000
DEFERRED INCOME TAXES (note 6(a))	58,610,000	48,797,000
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	278,658,000	277,243,000
Retained earnings	382,024,000	363,142,000
Total shareholders' equity	660,682,000	640,385,000
	$1,004,726,000	$911,117,000

On behalf of the Board:

Jerry McAfee, Director.

Beverley Matthews, Director.

Gulf Oil Canada Limited (and subsidiary companies)

STATEMENTS OF CONSOLIDATED EARNINGS

Year ended December 31, 1969 (with comparative figures for 1968 (note 12))

EARNINGS	1969	1968
REVENUE:		
Gross sales and other operating revenues	$801,695,000	$759,466,000
Less gasoline and fuel taxes	146,416,000	135,930,000
Net sales and other operating revenues	655,279,000	623,536,000
Investment and sundry income	14,528,000	13,133,000
	669,807,000	636,669,000
DEDUCTIONS:		
Purchased crude oil, products and merchandise	278,031,000	271,290,000
Operating, selling and administrative expenses	230,379,000	206,407,000
Taxes other than taxes on income	38,963,000	37,260,000
Depreciation, depletion and amortization (note 5)	47,863,000	45,547,000
Interest and amortization of discount and redemption premium on long term debt	7,329,000	4,796,000
	602,565,000	565,300,000
EARNINGS FOR THE YEAR BEFORE INCOME TAXES	67,242,000	71,369,000
TAXES ON INCOME (note 6(a)):		
Current	11,911,000	24,605,000
Deferred	9,813,000	(1,461,000)
	21,724,000	23,144,000
EARNINGS FOR THE YEAR	$ 45,518,000	$ 48,225,000
Per share of common stock outstanding at the end of each year	$ 1.00	$ 1.06

RETAINED EARNINGS

	1969	1968
Balance, beginning of the year	$363,142,000	$354,225,000
Adjustment of prior years' taxes (note 6(b))		10,881,000
Balance, beginning of the year, as restated	363,142,000	343,344,000
Add earnings for the year	45,518,000	48,225,000
	408,660,000	391,569,000
Deduct:		
Dividends on common shares	26,636,000	24,673,000
Provision for obsolete and abandoned plant $7,085,000 less applicable deferred income tax effect $3,767,000		3,318,000
Adjustment for pooling of interest re additional shares of Royalite Oil Company, Limited acquired during year		436,000
	26,636,000	28,427,000
Balance, end of the year	$382,024,000	$363,142,000

See accompanying notes to financial statements.

Gulf Oil Canada Limited (and subsidiary companies)

STATEMENT OF CONSOLIDATED SOURCE AND USE OF FUNDS

Year ended December 31, 1969 (with comparative figures for 1968 (note 12))

	1969	1968
SOURCE OF FUNDS:		
Earnings for the year	$ 45,518,000	$ 48,225,000
Add back –		
Depreciation, depletion and amortization	47,863,000	45,547,000
Deferred income taxes	9,813,000	(1,461,000)
Other	1,924,000	1,221,000
Funds from operations	105,118,000	93,532,000
Net book value of fixed asset disposals	9,280,000	4,353,000
Proceeds from debenture issue	49,175,000	49,100,000
Refund of U.S. taxes (note 6(b))	2,247,000	
Proceeds from issue of shares for cash	1,415,000	1,495,000
Other – net	623,000	1,102,000
Total	167,858,000	149,582,000
USE OF FUNDS:		
Additions to properties, plants and equipment	112,768,000	87,815,000
Increase in investments and long term receivables	7,618,000	6,442,000
Reduction in long term debt	7,061,000	4,512,000
Dividends on common shares	26,636,000	24,673,000
Total	154,083,000	123,442,000
Increase in working capital	13,775,000	26,140,000
Working capital, beginning of the year	210,880,000	184,740,000
Working capital, end of the year	$224,655,000	$210,880,000

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1969

1. SUBSIDIARY COMPANIES

The accounts of all subsidiary companies have been included in the consolidation. With the statutory amalgamation of the Company, Shawinigan Chemicals Limited and Royalite Oil Company, Limited, effective April 1, 1969, the remaining minority interest in the latter company was converted into equity shares of the Company. Minority interests in other subsidiary companies at December 31, 1969 ($241,000) have been included in other accounts payable and the amount of the year's income applicable thereto $(56,000) in operating costs.

2. INVENTORIES

Inventories of crude oil, products and merchandise are valued generally at the lower of cost applied on a "first-in, first-out" basis and market value determined on the basis of replacement cost or net realizable value. Materials and supplies are valued at cost or lower, depending on the condition of the items.

3. INVESTMENTS IN ASSOCIATED AND OTHER COMPANIES

	Cost 1969	Cost 1968
With quoted market value 1969 – $62,745,000; 1968 – $59,466,000	$ 6,459,000	$ 6,762,000
Without quoted market value	5,031,000	4,973,000
	$11,490,000	$11,735,000

The market values shown are based on closing market prices at the end of each year. Because of the number of shares involved, the market values do not necessarily reflect the amounts that might be realized if certain of the securities were to be sold.

4. PROPERTIES, PLANTS AND EQUIPMENT

	Gross investment at cost	Accumulated depreciation, depletion and amortization	Net investment 1969	Net investment 1968
Production	$ 405,812,000	*$177,860,000	$227,952,000	$216,504,000
Transportation	28,678,000	17,450,000	11,228,000	11,644,000
Refining and petrochemicals	392,765,000	205,074,000	187,691,000	147,394,000
Marketing	246,575,000	100,512,000	146,063,000	142,328,000
Other	18,822,000	6,364,000	12,458,000	10,709,000
	$1,092,652,000	$507,260,000	$585,392,000	$528,579,000

**Includes accumulated depletion of $30,545,000 with respect to the acquisition costs of productive properties.*

5. DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation, depletion and amortization in the statement of consolidated earnings consist of:

	1969	1968
Depreciation of plants and equipment	$35,563,000	$34,799,000
Depletion of acquisition costs of productive properties	2,156,000	1,765,000
Amortization of non-producing properties, drilling costs and other intangible assets	10,144,000	8,983,000
	$47,863,000	$45,547,000

Policies governing depreciation, depletion and amortization are as follows:

(a) *Exploration and development costs—*

The companies follow the practice of charging to expense, as incurred, the cost of all dry holes and all exploration expenditures except the initial acquisition cost of oil and gas properties. These latter costs together with the costs of successful wells are capitalized and charged against earnings on a unit-of-production or other amortization basis.

(b) *Investment in plants and equipment—*

Charges are made against earnings for depreciation of investment in plants and equipment based on engineering reviews of the remaining service lives of the assets using either the straight-line or the unit-of-production method, whichever is appropriate.

6. INCOME TAXES

(a) In arriving at reported earnings, income taxes have been computed on the basis of:

(i) claiming exploration and development expenditures to the extent that they were allowable deductions for tax purposes, in the year in which they were incurred, regardless of the treatment followed in the accounts;

(ii) providing for other items under the tax allocation method of accounting for income taxes, whereby the provision for income taxes each year is computed on the basis of the depreciation and certain other charges recorded in the accounts rather than the related amounts claimed as deductions in the companies' tax returns.

The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originated in financial years commencing on or after January 1, 1968. However, Opinion 11 of The Accounting Principles Board of the American Institute of Certified Public Accountants does not require tax allocation procedures at this time with respect to intangible development costs in the oil and gas industry. As is the case with many other companies in the industry in Canada, the Company does not believe that tax allocation in respect of exploration and development costs is appropriate at this time. Accordingly, no provision has been made for deferred income taxes for timing differences involving such costs. If the tax allocation basis had been followed with respect to such costs in current and prior years, net income for the year would have been reduced by $3,485,000 ($4,232,000 in 1968) or by $.08 per share ($.09 in 1968) and the cumulative amount of deferred income tax credits to December 31, 1969 related to such costs would have been $41,248,000.

(b) The Company's claim for refund of $13,128,000 of U.S. taxes paid in 1967 as a result of an assessment received from the United States income tax authorities was disallowed in a judgment given on June 30, 1969 except to the extent of $2,247,000. The amount disallowed, $10,881,000 applied to 1965 and prior years and accordingly the balance of retained earnings at January 1, 1968 has been adjusted from the amount previously reported to give effect to this prior period adjustment.

A decision to appeal this judgment has been made and appeal proceedings have been commenced.

7. LONG TERM DEBT

SINKING FUND DEBENTURES:	Maturity	Amount
Gulf Oil Canada Limited		
4¾%	1971	$ 2,100,000
4¾% and 5%	1972-1975	11,000,000
3½%, 1954 issue	1974	8,043,000
5⅛%, Series A	1977	12,361,000
5¾%, Series B	1982	7,249,000
5¼%, Series C (U.S. $15,734,000)	1982	17,010,000
7⅜%, Series D (no sinking fund)	1978	10,000,000
7⅜%, Series E	1988	40,000,000
8½%**	1989	50,000,000
Superior Propane Limited		
4% to 6¾%	1975-1980	1,879,000
Other long term obligations of subsidiary companies	varying dates	1,288,000
		160,930,000
Less instalments due within one year included in current liabilities		3,306,000
		$157,624,000

Approximate instalments of long term debt due in each of the five years subsequent to December 31, 1969, are as follows:

1970 – $3,306,000; 1971 – $7,366,000; 1972 – $5,656,000; 1973 – $5,660,000; 1974 – $8,462,000

***Between June 1, 1973, and June 1, 1974, the holders may elect that Gulf Oil Canada Limited prepay the principal amount of such debentures on December 1, 1974.*

8. CAPITAL STOCK

Shares without nominal or par value:

Authorized—68,000,000 shares
Issued —45,358,706 shares

(a) Pursuant to the statutory amalgamation referred to in note 1:

(i) The issued common shares of Gulf Oil Canada Limited at March 31, 1969, were converted on the basis of 2 shares of the amalgamated company for 1 of the previously outstanding shares.

(ii) The issued common shares of Royalite Oil Company, Limited other than those beneficially owned by the Company were converted into 66,186 shares of the amalgamated company on the basis of 1.2 shares of the amalgamated company for 1 share of Royalite and these have been recorded in the capital stock account shown in the attached balance sheet at $148,452 under the pooling of interest accounting treatment followed in respect of all acquisitions of Royalite shares.

All references herein to the Company's shares have been adjusted to reflect these conversions.

(b) The Company's incentive stock option plan provides for the granting of options to full-time officers and other employees to purchase common shares of the Company at the market price on the day on which the options are granted. Under the plan, options become exercisable after one year's continuous employment immediately following the date the options are granted and are for a period of ten years. During 1969, options on 74,870 shares were exercised for an aggregate cash consideration of $1,415,000, options on 6,200 shares expired and no options were granted. Details of common shares under option at December 31, 1969, were as follows:

Year option granted	Normal expiry date	Option price per share	Number of shares
1960	January 4, 1970	$16 29/32	36,200
1961	February 22, 1971	16 31/32	43,600
1962	September 20, 1972	14 29/32	15,100
1965	April 22, 1975	17 5/16	20,000
1966	February 2, 1976	15 1/32	12,600
1967	October 4, 1977	18 11/16	63,000
			190,500

Shares under option at December 31, 1969, included 40,000 shares under option to officers of the Company.

9. PENSION PLANS

The companies have funded pension plans covering substantially all their employees. The contributions by employees together with those made by the companies are deposited with insurance companies and/or trustees according to the terms of the plans. Pensions at retirement are related to remuneration and years of service. The amounts charged to income (including amounts paid to government pension plans) were $4,417,000 in 1969 and $4,508,000 in 1968, which amounts included amortization of prior service costs. The unfunded prior service pension costs were approximately $6,315,000 at December 31, 1969, and these will be funded in varying amounts over the next nine years.

10. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1969, construction of a 60,000 barrel-per-day refinery at Point Tupper, Nova Scotia, was well advanced with completion scheduled for late 1970. The total cost of this new refinery complex is estimated at $72,000,000 of which approximately $26,000,000 had been spent to December 31, 1969. The Company has also commenced construction of a new 80,000 barrel-per-day refinery at Edmonton, Alberta, scheduled for completion early in 1971 at an estimated cost of $84,000,000 of which approximately $13,400,000 had been spent to the end of 1969.

The companies have other commitments in the ordinary course of business for the acquisition or

construction of fixed assets and for the purchase of materials, supplies, investments and services which are not significant in relation to their net assets.

The companies in the normal course of business have entered into lease, charter hire, throughput agreements and other similar commitments. Long term leases for real property and tank car rentals have approximate rentals payable in 1970 of $12,744,000 (inclusive of property taxes). Rental income from properties sub-leased to others is estimated at $4,859,000 for 1970. Under certain of these long term leases, the Company has the option to purchase the leased assets and is obligated to make advances from time to time which will be applied against the purchase price if the option is exercised. It is estimated that such advances will aggregate approximately $22,365,000 over the terms of the lease agreements (which expire at various dates to 1982). Advances to December 31, 1969 have amounted to $4,195,000 and during the next five years will aggregate approximately $4,965,000 of which $826,000 will be payable in 1970.

The companies are contingently liable for guarantees of obligations of pipe line companies and of mortgages payable by owners of service stations and others, aggregating $15,786,000 at December 31, 1969. Also under long term agreements with certain other pipe line companies, the Company has agreed in conjunction with other users to ship sufficient crude oil to generate the revenue required to meet the obligations of these companies and in the event there is any deficiency the Company may be required to purchase subordinated securities in an amount sufficient to make up its share of the deficiency. The management of the Company is of the opinion no losses of any consequence will arise from these guarantees and long term agreements.

In January, 1970, the Company received preliminary notice ("30-day letters") that the U.S. Internal Revenue Service is proposing adjustments which could result in deficiencies in respect of U.S. income tax relating to certain transactions which took place in the United States immediately following the sale in July, 1966 by the Company of all of the shares of its then wholly-owned U.S. subsidiary, The British-American Oil Producing Company (BAOP). The proposed adjustments relate to the U.S. income tax returns filed by BAOP for the taxation year January 1, 1966 to July 28, 1966. The proposed adjustments could result in a claim for deficiency of $25.4 million (U.S.) against BAOP and Gulf Oil Corporation (parties to the transactions above mentioned) and against the Company as alleged transferee of the assets of BAOP. As an alternative to its primary position in respect of a possible deficiency of $25.4 million (U.S.), the Internal Revenue Service is proposing adjustments which could result in claims for deficiencies against the Company of $45.4 million (U.S.) and $2 million (U.S.) arising out of the same transactions.

It is the opinion of U.S. tax counsel that any liability arising out of the possible deficiencies of $25.4 million and $2 million would not be a liability of the Company and that the Company has a good defence against the possible deficiency of $45.4 million.

11. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers of the Company during 1969 was $999,000 of which $329,000 represented the aggregate of remuneration paid to the officers who were also directors of the Company and fees paid to other directors.

12. COMPARATIVE FIGURES

The comparative figures for 1968 in the accompanying financial statements have been restated to give effect to the prior period adjustment arising on the disallowance of the U.S. tax refund (note 6(b)), the pooling of interest accounting applied to the conversion of the minority interest in Royalite Oil Company, Limited (notes 1 and 8(a)) and reclassifications of certain revenue items.

Clarkson, Gordon & Co.

Chartered Accountants

Royal Trust Tower
P.O. Box 251 Toronto-Dominion Centre
Toronto 111, Canada

AUDITORS' REPORT

To the Shareholders of Gulf Oil Canada Limited:

We have examined the consolidated balance sheet of Gulf Oil Canada Limited and subsidiary companies as at December 31, 1969 and the statements of consolidated earnings and consolidated source and use of funds for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Gulf Oil Canada Limited and subsidiary companies as at December 31, 1969 and the results of their operations and source and use of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Toronto, Canada, February 6, 1970.

FIVE YEAR SUMMARY OF OPERATIONS

	1969	1968	1967	1966	1965
NET NATURAL GAS PRODUCED AND SOLD					
(millions of cubic feet)					
Canada	129,572	115,296	103,669	98,822	98,961
Per day	355	315	284	271	271
U.S.—to July 27, 1966	—	—	—	22,509	28,759
Per day	—	—	—	94	79
NET CRUDE AND NATURAL GAS LIQUIDS PRODUCED					
(thousands of barrels)					
Canada	31,352	29,308	27,101	24,703	23,453
Per day	86	80	74	68	64
U.S.—to July 27, 1966	—	—	—	4,546	8,396
Per day	—	—	—	22	23
CRUDE OIL PROCESSED BY AND FOR THE COMPANY					
(thousands of barrels)					
Total	72,012	71,336	69,850	66,530	57,145
Per day	197	195	191	182	157
REFINED PRODUCTS SOLD					
(thousands of barrels)					
Total	75,318	74,655	76,353	68,351	62,673
Per day	206	204	209	187	172
PETROCHEMICAL SALES					
(thousands of pounds)					
Total	484,511	454,645	471,933	482,226	457,186
Per day	1,327	1,242	1,293	1,321	1,253
SULPHUR SALES					
(long tons)					
Total	134,271	143,067	173,796	221,421	258,844
Per day	368	391	476	607	709
NET WELLS CAPABLE OF PRODUCING AT YEAR-END					
Canada	1,593	1,592	1,552	1,556	1,535
U.S.	—	—	—	—	687
Total	1,593	1,592	1,552	1,556	2,222
NET WELLS DRILLED					
Canada	44	65	51	78	130
U.S.	—	—	—	11	40
Total	44	65	51	89	170
NET ACREAGE UNDER LEASE, RESERVATION AND OPTION					
(thousands of acres)					
Canada	27,237	29,413	23,803	18,761	15,979
U.S.	—	—	—	—	786
Total	27,237	29,413	23,803	18,761	16,765

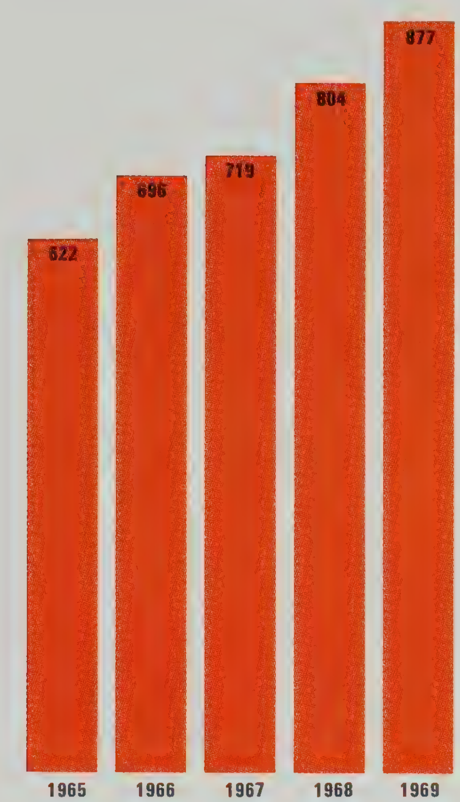
FIVE YEAR FINANCIAL SUMMARY

Amounts, except for unit statistics, expressed in millions of dollars

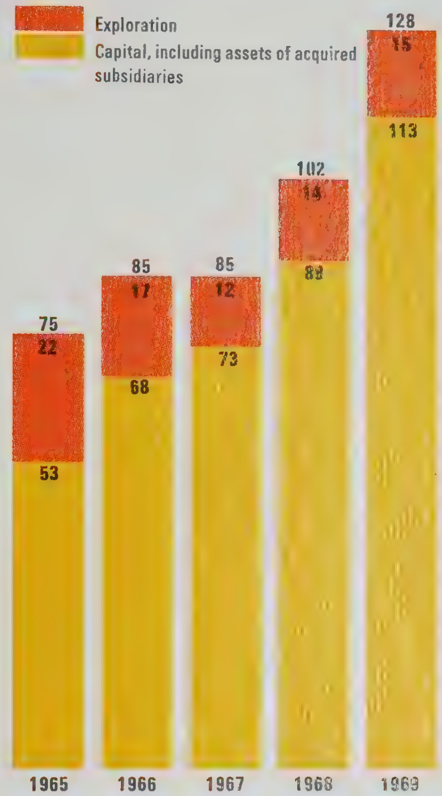
	1969	1968	1967	1966	1965
BALANCE SHEET					
Current assets	$352.5	$318.1	$298.8	$305.4	$246.2
Deduct: Current liabilities	127.8	107.2	113.9	96.3	137.9
Working capital	224.7	210.9	184.9	209.1	108.3
Properties, plants and equipment – net	585.4	528.6	496.7	469.6	504.2
Investments, long term receivables and other assets	66.8	64.4	59.0	39.7	37.2
	876.9	803.9	740.6	718.4	649.7
Deduct: Minority interest in subsidiaries	—	—	21.4	22.4	27.3
Capital employed	876.9	803.9	719.2	696.0	622.4
Deduct: Long term debt	157.6	114.7	69.2	70.9	78.0
Deferred income taxes	58.6	48.8	54.0	52.2	48.3
Shareholders' equity	$660.7	$640.4	$596.0	$572.9	$496.1
Per common share	$ 14.57	$ 14.14	$ 13.57	$ 13.09	$ 11.35
CAPITAL EXPENDITURES					
New properties, plants and equipment	$112.4	$86.9	$ 70.8	$ 66.2	$ 52.1
Fixed assets of acquired subsidiaries	.4	.9	1.6	1.9	1.3
	$112.8	$ 87.8	$ 72.4	$ 68.1	$ 53.4
EARNINGS					
Gross sales and other operating revenues	$801.7	$759.5	$724.9	$685.3	$629.4
Less gasoline and fuel taxes	146.4	135.9	121.9	115.9	103.8
Net sales and other operating revenues	655.3	623.6	603.0	569.4	525.6
Investment and sundry income	14.5	13.1	12.3	10.8	8.4
	669.8	636.7	615.3	580.2	534.0
Deduct:					
Exploration and dry hole costs	15.3	14.0	12.3	17.1	22.0
Depreciation, depletion and amortization	47.9	45.5	41.0	44.5	44.9
Purchases and other expenses	500.4	468.5	456.1	422.7	382.4
Taxes, other than income	39.0	37.3	36.0	33.2	31.6
Minority share of earnings	—	—	(.2)	1.2	1.7
	602.6	565.3	545.2	518.7	482.6
Earnings for the year before income taxes	67.2	71.4	70.1	61.5	51.4
Taxes on income –					
Current	11.9	24.6	23.5	15.4	11.0
Deferred	9.8	(1.4)	1.8	3.9	4.9
Earnings for the year	$ 45.5	$ 48.2	$ 44.8	$ 42.2	$ 35.5
FUNDS FROM OPERATIONS	$105.1	$ 93.5	$ 88.1	$ 90.9	$ 86.8
DIVIDENDS PAID	$ 26.6	$ 24.7	$ 24.1	$ 23.5	$ 21.8
PER COMMON SHARE					
Earnings for the year	$ 1.00	$ 1.06	$ 1.02	$ .97	$ .81
Dividend rate at year-end	$ .60	$ .55	$ .55	$ .55	$ .50

Note: *The figures shown above have been restated, where necessary, to be comparable to 1969. Minority interests for the years 1968 and 1969 were not material and have been included in current liabilities and the amount of the year's income applicable thereto in purchases and other expenses.*

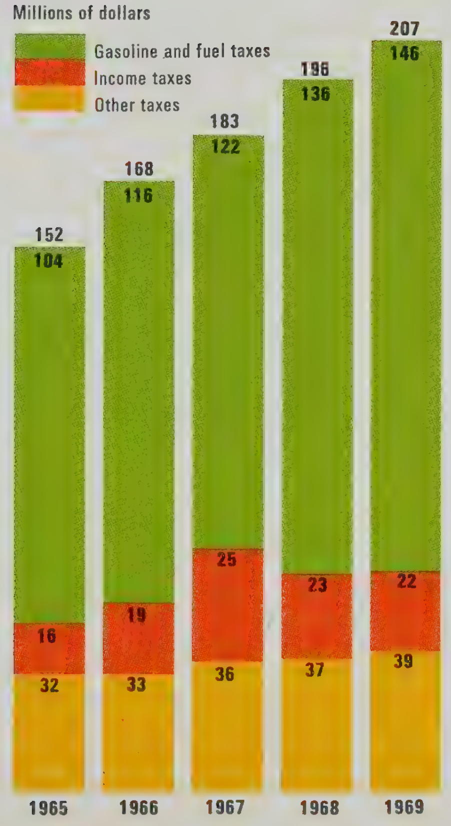
Capital employed
Millions of dollars



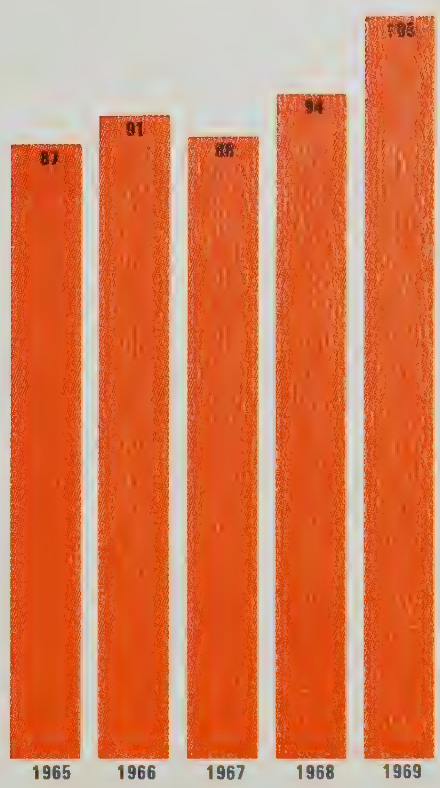
Capital and exploration expenditures
Millions of dollars



Taxes
Millions of dollars



Funds from operations
Millions of dollars




GULF CANADA
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GULF OIL CANADA LIMITED

Head Office
800 Bay Street, Toronto, Ontario

Marketing Division Offices
Halifax, Nova Scotia; Montreal, Quebec; Toronto, Ontario; Calgary, Alberta; Vancouver, British Columbia

Shawinigan Chemicals Division
Headquarters: Montreal, Quebec
Plants: Shawinigan, St. Maurice, Ste. Thérèse, Montreal East and Varennes, Quebec

Accounting and Data Processing Centres
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

Research and Development Centres
Sheridan Park, Ontario
Ste. Anne de Bellevue, Quebec

Exploration and Production
Headquarters: Calgary, Alberta
Gas plants: Pincher Creek, Nevis, Gilby, Rimbey, Turner Valley and Morrin-Ghost Pine, Alberta

Pipe Lines
Operated pipe lines –
Gulf Alberta pipe line
Gulf Saskatchewan pipe line
Mid-Saskatchewan pipe line
Rimbey pipe line
Saskatoon pipe line
Shawinigan pipe line
Valley pipe line

Refineries
Montreal East, Quebec; Clarkson, Ontario; Moose Jaw and Saskatoon, Saskatchewan; Calgary and Edmonton, Alberta; Kamloops and Port Moody, British Columbia

Principal Affiliates (wholly-owned)

SERVICO LIMITED
Head Office: Quebec, Quebec
President: J.L. Valens

SUPERIOR PROPANE LIMITED
Head Office: Toronto, Ontario
President: R.G. Samworth

WESTERN TIRE AND AUTO SUPPLY LIMITED
Head Office: Toronto, Ontario
President: J.L. Valens

Registrar
Canada Permanent Trust Company, Toronto

Transfer Agents
Canada Permanent Trust Company – Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Montreal, Saint John, N.B., Halifax
Registrar and Transfer Company – New York

Wayfare restaurants, Home Comfort, Diagnostic and Repair, and Farm Centres are the responsibility of Servico Limited, newly formed in 1969 as the retail arm of Gulf Canada's Marketing Department.

Printed in Canada

GULF OIL CANADA LIMITED
800 BAY STREET, TORONTO 5, ONTARIO • TELEPHONE 924-4141

April 9, 1969

TO THE SHAREHOLDERS OF GULF OIL CANADA LIMITED
(the company resulting from the amalgamation of Gulf Oil Canada Limited, formerly The British American Oil Company Limited, Royalite Oil Company, Limited and Shawinigan Chemicals Limited).

This letter is to advise the shareholders of Gulf Oil Canada Limited (the Amalgamated Company) that Letters Patent confirming the amalgamation between the above companies have now been received effective as of April 1, 1969.

On March 26 a ruling was received from the United States Internal Revenue Service stating that the amalgamation would not result in the recognition of any gain under the United States Federal income tax laws to the Amalgamating Companies, the Amalgamated Company and the shareholders of The British American Oil Company Limited. The resolution passed by the shareholders of British American approving the Amalgamation Agreement was subject to the condition that such a ruling be obtained before an application for Letters Patent confirming the Amalgamation Agreement could be made. The ruling having been received, the condition was accordingly satisfied.

Application was also made to the United States Internal Revenue Service for a similar ruling in respect to shareholders of Royalite Oil Company, Limited who are subject to United States income tax laws. You will remember that the obtaining of such a ruling in respect to Royalite shareholders was not a condition attached to Royalite's shareholder approval of the amalgamation because United States tax counsel was unable to give assurance that such ruling would be given. I regret to report we have now been advised the Revenue Service would not give this ruling, and therefore these shareholders will be subject to United States tax on the exchange of their Royalite shares for shares in the Amalgamated Company.

To The Shareholders of Gulf Oil Canada Limited

The amalgamation having now been completed, a letter will be mailed in the near future to each shareholder outlining the procedure to be followed to exchange his British American and/or Royalite share certificates for share certificates in the Amalgamated Company. It is hoped that all shareholders of both companies will surrender their share certificates for exchange as quickly as possible thereafter.

It is intended to call the first Annual Meeting of Shareholders of the Amalgamated Company as soon as possible. One purpose of the meeting is to place before the shareholders the financial statements of British American and Royalite for the year ended December 31, 1968. These statements would normally be placed before the regular annual meetings of these companies, but now that the amalgamation is completed they have become the one Amalgamated Company. For this reason, the financial statements of both companies are enclosed with this letter. Formal notice of the meeting, a form of proxy and an information circular will be mailed to each shareholder later this month.

President

To The Shareholders of [illegible]

The amalgamation having [illegible] mailed in the [illegible] to be followed [illegible] certificates [illegible]

[illegible]